

VIRGINIA FINANCIAL PERSPECTIVE

A REPORT TO THE CITIZENS OF THE COMMONWEALTH FOR FISCAL YEAR 1999

Prepared by the Department of Accounts
December 31, 1999

James S. Gilmore, III
Governor

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EXECUTIVE SUMMARY - PURPOSE OF THIS REPORT

The purpose of this report is to summarize and simplify the presentation of information contained in the Comprehensive Annual Financial Report (CAFR) of the Commonwealth of Virginia. The Commonwealth's financial statements are prepared in accordance with generally accepted accounting principles and are independently audited by the Auditor of Public Accounts. Much of the information in the audited financial statements is necessarily technical and complex. As a result, the full financial statements may not be particularly useful to the citizens of the Commonwealth who wish to better understand state government finances.

Over the last several years, state and local governments have begun issuing simplified financial reports. These are often referred to as *popular reports*. These reports are intended to better inform the public about their government's financial condition, without excessive detail or the use of technical accounting terms.

This report summarizes and explains the information contained in the financial statements for fiscal year 1999, along with other information on the Commonwealth's finances, in easily understood terms. This report represents the ongoing commitment of Commonwealth officials to keep Virginians informed about state finances, and to be accountable in all respects for the receipt and expenditure of public funds.

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Virginia's Economy

Each year the CAFR includes a section describing the Commonwealth's economic outlook. For FY 1999, economists at the Center for Public Policy at Virginia Commonwealth University provided this analysis. The close of the millennium finds the Virginia economy matching or surpassing national growth rates in many key economic indicators. These include personal income, wages and salaries, and total nonagricultural employment. Furthermore, Virginia's unemployment rate continued its seven-year decline, reaching 2.8 percent in FY 1999. This marks the lowest unemployment rate since 1974 when the Bureau of Labor Statistics began its current method of computing the unemployment rate.

Virginia's extremely low unemployment rate has influenced the growth in average compensation per employee. In order to attract new workers from within the Commonwealth as well as from other states, companies in Virginia have been raising wages and salaries. The year-to-year quarterly growth rates (fourth quarter FY 1999 has been estimated by the Center) in real wages and salaries have exceeded the growth rates in nonagricultural employment in each of the past sixteen quarters (**Figure 1**). In second quarter FY 1999, the difference between these two growth rates reached 5.8 percentage points as real wages and salaries increased 8.2 percent and nonagricultural employment expanded by 2.4 percent over the same period of the preceding fiscal year.

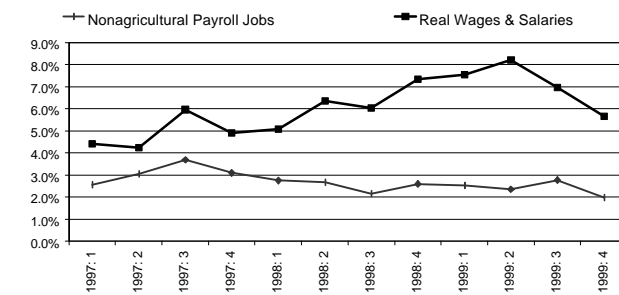
Virginia nonagricultural wage and salary employment grew by approximately 78,500 jobs in FY 1999. This 2.4 percent increase over FY 1998 matched the national growth rate. The growth in services sector employment out-paced that of all other sectors with 46,200 additional jobs added to the Virginia economy. The high technology services subsectors contributed nearly 75 percent of these new jobs at 34,150. These include business services (20,675), engineering, architectural and management consulting services (9,308), and health services (4,167).

The retail trade sector added 9,300 jobs and construction accounted for an increase of 6,700 jobs. The job growth in these two areas reflects continued strength in Virginia's retail sales and housing markets.

Total Virginia wages and salaries grew at 8.1 percent compared with 7.2 percent growth for the United States. This is the third straight fiscal year that Virginia's wages and salaries grew at a pace greater than that of the nation.

As another indication of Virginia's strong economy, building permits increased by 14.7 percent from 46,875 in FY 1998 to 53,744 in FY 1999. The growth in permits authorized more than doubled the FY 1998 6.6 percent growth.

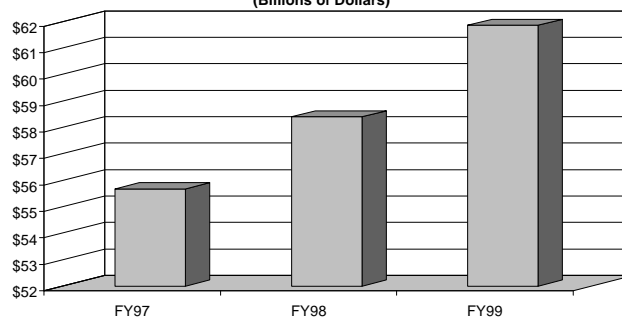
Figure 1
Virginia Job and Real Wage and Salary
Year-to-Year Quarterly Growth Rates, Fiscal Year Quarters



Sources: Bureau of Labor Statistics and Bureau of Economic Analysis

Increases in income translated into increases in spending. Virginia fiscal year retail sales are depicted in **Figure 2**. This is the largest rate of growth in retail sales since FY 1995.

Figure 2
Virginia Retail Sales
(Billions of Dollars)

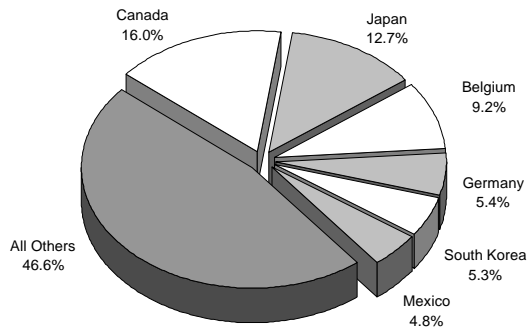


Source: Virginia Department of Taxation

For the second straight year, Virginia's foreign exports to the world surpassed \$11 billion for the calendar year (1998). Virginia now ranks 16th among all states in terms of exports to the world, moving up from the 17th position last year. Exports account for about 5 percent of Virginia's gross state product. **Figure 3** shows the State's six largest export markets ranked by dollar amount in calendar year 1998.

Those countries that imported more from Virginia in 1998 compared to 1997 were Mexico (27.2 percent), Canada (19.5 percent), and Japan (1.7 percent). Those that imported less were South Korea (-19.5 percent), Belgium (-9.9 percent) and Germany (-7.5 percent). In the coming year, Virginia should see exports to Asia begin to pick up as their economies recover and their currencies continue to strengthen.

Figure 3
Virginia's Largest Export Markets



Source: Department of Commerce

The State's residents have enjoyed the benefits of low unemployment, continued job growth and higher real wages and salaries. Continued growth of new companies locating in the Commonwealth, the Asian recovery and strengthening world economy, and the Federal Reserve's policy to fight wage inflation should allow Virginia to continue to prosper in FY 2000.



This section contains **Financial Statement Information** for the Commonwealth of Virginia for the fiscal year ending June 30, 1999.

When Virginia state government reports on its finances, it does so on the basis of a *fiscal year* which starts on July 1 and ends the following June 30. All information presented in this report is for the fiscal year that began on July 1, 1998, and ended on June 30, 1999. This is referred to as fiscal year 1999, or FY 1999.

Virginia's financial information is prepared by the Department of Accounts, an executive branch agency, under the direction of the Governor and the Secretary of Finance. The information is then audited by the Auditor of Public Accounts, who is an official of the legislative branch of government. In this way, the audit process is independent. The financial information for FY 1999 was audited and received an unqualified auditor's opinion.

Virginia accounts for its revenues and expenditures within various *funds*. The largest fund supporting the operation of state government is the General Fund, which accounts for the majority of receipts from income and sales taxes. Another important fund is the Commonwealth Transportation Fund, which receives revenues from gasoline taxes, vehicle registration fees and a portion of sales taxes. A third fund is the Higher Education Fund, which accounts for financial activity of state colleges and universities. A fourth large fund is the

Pension Trust Fund, which includes the assets of the state employees' pension system. The Enterprise Fund includes two other activities familiar to most Virginians, the state lottery and the sale of alcoholic beverages.

Virginia accounts for its revenues and expenditures under two different methods of accounting. The Virginia Constitution and laws passed by the General Assembly require that all accounting be on a *cash basis*. This means that revenue is recognized when cash is received and expenditures are recognized when cash is paid out. Cash basis accounting is simple and easily verified. Therefore, it is the best way to demonstrate that state agencies are complying with laws that govern spending.

The other method of accounting used in Virginia involves the application of *generally accepted accounting principles*, or *GAAP*. GAAP is defined by national standard setting bodies, and is the method of accounting required when Virginia sells bonds. Only financial information prepared on a GAAP basis can be audited in accordance with accepted practice and receive an unqualified opinion from the Auditor of Public Accounts.

Commonwealth Balance Sheet - GAAP Basis

A *balance sheet* summarizes the assets, liabilities and equity of an organization. As of the end of FY 1999, Virginia had *assets* (i.e., cash, investments, property and amounts owed to the state) on a GAAP basis of \$78.6 billion. These assets were partially offset by liabilities (i.e., amounts owed by the state to others) of \$23.6 billion, leaving state government with a *total equity* (the amount left after liabilities are subtracted from assets) of \$55.0 billion. **Figure 4** is a condensed balance sheet for the Commonwealth as of June 30, 1999.

Information is presented in this report on both the cash and GAAP basis of accounting, depending on which is more informative. Labels have been used to note which basis of accounting is being shown.

This Popular Report contains information from only selected funds and account groups and does not include all of the State's component units. Component units are legally separate entities that are accountable to the State. Only the balance sheet on page 4 includes all of the State's funds, account groups, and component units.

The full financial statements of the Commonwealth of Virginia, together with other economic and demographic information, are published in Virginia's Comprehensive Annual Financial Report, or CAFR. Requests for copies of the CAFR should be directed to the address given on the last page of this report.

A balance sheet for government is similar to one for a private sector business in some respects, but different in others. One of the principal differences is the item under the assets, which is labeled as *Amount to be Provided for the Retirement of Long Term Debt*. This item represents the value of legally enforceable commitments of the Commonwealth, and its various authorities, to provide funds for the payment of long term debt, primarily tax-exempt bonds, when they come due.

Although the total equity of Virginia is substantial and confirms the overall financial health of the Commonwealth, it is equally important to look at the financial condition of some of the individual *funds*.

Balance Sheet (GAAP Basis)			
As of June 30, 1999			
(Dollars in Millions)		Figure 4	
ASSETS:		LIABILITIES and EQUITY:	
Cash and Investments	\$ 53,412	Liabilities:	
Accounts and Other Receivables	10,381	Accounts and Other Payables	\$ 1,488
Due from Other Funds	529	Long Term Liabilities	13,497
Inventory	254	Due to Other Governments	371
Property, Plant and Equipment	10,403	Due to Other Funds	529
Amount Available for Long-Term Debt	19	Deferred Revenues and Credits	612
Amount to be Provided for the Retirement of Long-Term Debt	3,309	Security Lending Obligations	2,036
All Other Assets	306	All Other Liabilities	5,111
		Total Liabilities	23,644
		Equity:	
		Higher Education Property and Equipment	4,325
		Other State Property and Equipment	3,962
		Contributed Capital	1,008
		Fund Balances /Retained Earnings	45,674
		Total Equity	54,969
Total Assets	\$ 78,613	Total Liabilities and Equity	\$ 78,613

General Fund – Cash Basis

During FY 1999, the General Fund received \$10.1 billion in resources. **Figure 5** illustrates the various revenue sources. Individual income taxes accounted for 60% of the resources, while sales taxes made up 20%. These revenues plus other direct revenues from outside sources totaled \$9.7 billion, or 96%. The remaining monies totaling \$409 million came through transfers from other funds, including alcoholic beverage sales and lottery profits.

Revenues (not including transfers) increased by \$927 million over FY 1998. Individual income tax revenues, which grew by 13% compared to last year, played the major role in this growth.

General Fund disbursements, including transfers, for FY 1999 (**Figure 6**) totaled \$10.0 billion. Expenditures totaled \$8.3 billion and transfers to other funds were \$1.7 billion. Education accounted for 50%, including direct state aid for primary and secondary schools and General Fund transfers to support state colleges and universities. Support for social services, Medicaid, public health, and mental health consumed 21% of the General Fund. Public Safety disbursed 17%, while only 6% was used to

support the administration of general governmental operations.

Expenditures (not including transfers) increased by \$1.0 billion over the prior year. Of the total increase, Education accounted for 47%, Public Safety for 18%, personal property tax relief payments for 13%, and Individual and Family Services accounted for another 12%.

General Fund revenues exceeded expenditures and net transfers by \$155 million in FY 1999. In other words, the General Fund had an operating profit for the year. The profit resulted from increased tax receipts coupled with expenditures that were less than budgeted.

Figure 7 shows the General Fund balance - cash basis - at the end of each year since 1995. Virginia's General Fund balance at the end of FY 1995 was \$350.7 million. FY 1996's \$125.6 million profit raised the balance to \$476.3 million. FY 1997's strong result boosted the balance to \$937.2 million. FY 1998's continuing strong economy brought the balance to \$1,444.2 million. FY 1999 saw an increase of \$155.4 million, bringing the balance to \$1,599.6 million.

The balances shown in **Figure 7** are made up of “committed” funds, “available” funds, and the “rainy

Balances are “committed” if there are plans in place for their use. “Available” balances may be used by the Governor and General Assembly for new projects or programs. At the end of FY 1999 there was an available balance of \$8.2 million, compared to an available balance of \$33.0 million at the end of FY 1998.

The “rainy day” fund is required by an amendment to the State Constitution, which was approved by the voters on November 7, 1992. This fund, formally named the Revenue Stabilization Fund, is a reserve of fund balance which can only be used if state revenues decline sharply from the previous year. Reserved funds must be appropriated by the General Assembly when revenue collections are strong compared to the average for the previous six years.

The total amount reserved in FY 1999 is \$555.6 million. It is made up of \$79.9 million from 1993 collections, \$66.6 million from 1995 collections, \$58.3 from 1996 collections, \$123.8 million from 1997 collections, \$194.1 million from 1998 collections and \$32.9 million in interest. Collections for FY 1994 did not require a contribution. An estimated contribution of \$103.3 million will be made based on collections in FY 1999.

Figure 5
General Fund Revenue
FY 1999, Cash Basis
(Dollars in Millions)

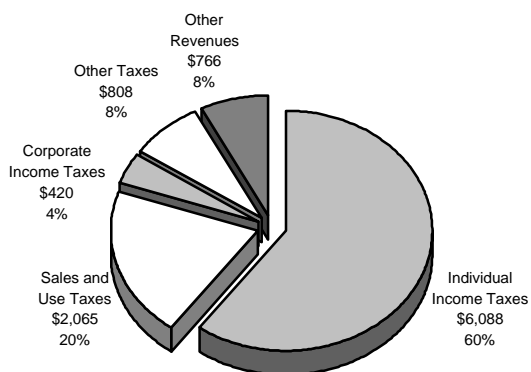
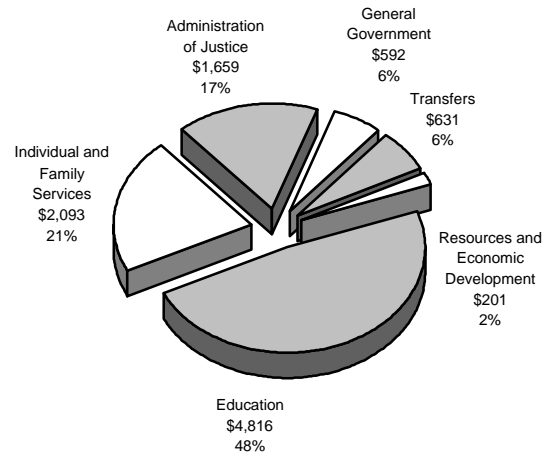


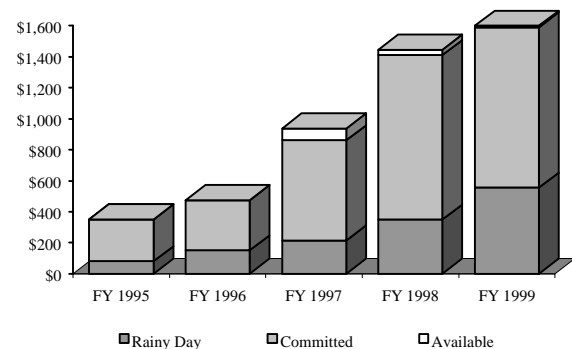
Figure 6
General Fund Disbursements
FY 1999, Cash Basis
(Dollars in Millions)



General Fund Balance - Cash Basis
Highlighting the Available Fund Balance

(Dollars in Millions)

Figure 7



General Fund - GAAP Basis

When the General Fund was accounted for on a *GAAP basis*, the fund had a positive balance of \$1,173.7 million in FY 1999, compared to a balance of \$1,011.4 million in FY 1998 (**Figure 8**). Virginia fully adopted GAAP financial reporting in FY 1983, and experienced GAAP deficits from FY 1990 through FY 1992 as a result of a recession. The deficit in FY 1995 was primarily the result of a federal retiree lawsuit. GAAP deficits may occur in Virginia without violating the state Constitution or statutes which prohibit deficit spending. However, if a General Fund GAAP deficit were to continue over time, agencies that rate state debt could view this as a problem for state finances.

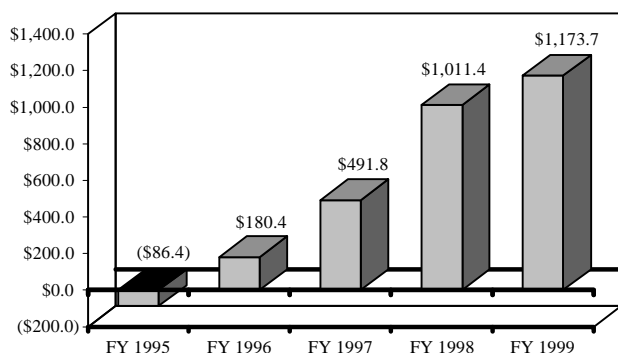
GAAP accounting requires that Virginia recognize several future liabilities which reduce fund balances to a

greater degree than is recognized on the cash basis of accounting. Two of these liabilities are particularly significant (**Figure 9**). One is for *estimated tax refunds due* of \$357.0 million, which is an estimate of the state income taxes withheld during FY 1999 that will eventually be refunded. The other item is an amount of estimated *Medicaid claims payable* of \$158.6 million, which represents medical services rendered in prior years that will not be paid for until FY 2000.

Figure 9 compares the General Fund on a cash and GAAP basis of accounting.

General Fund Balance - GAAP Basis

(Dollars in Millions) Figure 8



Analysis of General Fund Balance Cash Basis versus GAAP Basis

For Fiscal Years Ended June 30, 1999 and 1998

(Dollars in Millions) Figure 9

	FY 1999	FY 1998
Fund Balance, Cash Basis	\$ 1,599.6	\$ 1,444.2
ADD:		
Sales Taxes Receivable	234.5	188.9
Withholding Taxes Receivable	214.8	211.3
Other Receivables	125.8	97.7
Inventory	35.0	32.1
Other Accrued Items	(30.7)	15.9
Total to be Added	579.4	545.9
LESS:		
Tax Refunds Payable	135.3	124.1
Estimated Tax Refunds Due	357.0	318.3
Medicaid Claims Payable	158.6	152.3
Federal Retirees Tax Liability	-	65.9
Sales Taxes Due to Localities	138.0	116.5
Other Accrued Items	216.4	201.6
Total to be Subtracted	1,005.3	978.7
Difference	(425.9)	(432.8)
Fund Balance, GAAP Basis	\$ 1,173.7	\$ 1,011.4

Commonwealth Transportation Fund - Cash Basis

The Commonwealth Transportation Fund pays for the construction and maintenance of state highways. The fund also provides monies for other modes of transportation including rail, bus, aviation and seaports.

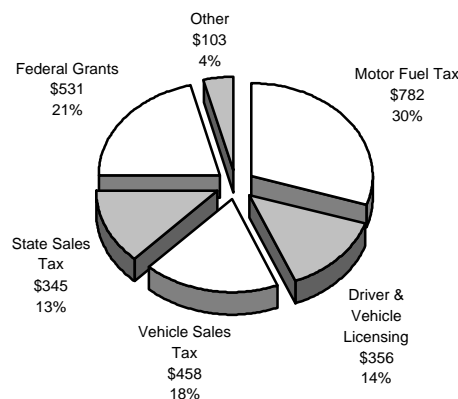
The size of this fund reflects the fact that Virginia is one of only a few states that includes essentially all roads within the state highway system. Virginia has over 67,914 miles of state roads.

The Commonwealth Transportation Fund (**Figure 10**) is classified as a *special revenue fund* because revenues of the fund come from various taxes and fees that are restricted for use in the support of transportation programs.

These revenue sources include the tax on motor fuel, vehicle registration and titling fees, and driver licensing fees. Also, since 1986, one half cent of the state's sales tax is deposited into this fund.

Figure 10

Commonwealth Transportation Fund Revenue Sources FY 1999, Cash Basis (Dollars in Millions)



During FY 1999, the Commonwealth Transportation Fund had receipts of \$2.6 billion and expenditures of \$2.7 billion. At the end of FY 1999, the fund had a balance of \$549 million measured on a cash basis. On a GAAP basis, the fund balance was \$509 million.

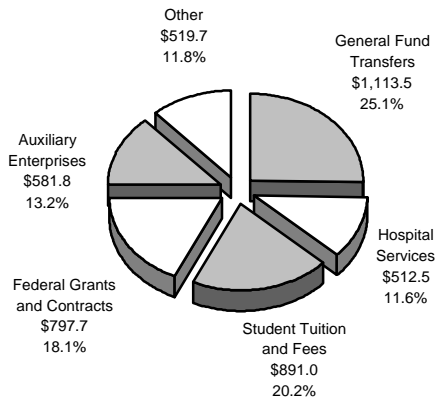
Highway construction projects often require several years to complete. As of the end of FY 1999, the state had \$1.7 billion in outstanding construction contracts for various highway projects. State revenues contribute approximately 74.2% of the funding for these projects. The federal government provides 17.7%, and 8.1% comes from bond proceeds. Local governments also contribute to the cost of highway construction.

Higher Education Fund - GAAP Basis

The Higher Education Fund accounts for transactions related to resources received and used for the operation of the Commonwealth's institutions of higher education and one teaching hospital. In FY 1999, Virginia colleges and universities had total current revenues and other sources of \$4.4 billion, which was a 6.4% increase from FY 1998. Current revenues generated \$3.2 billion. Revenues are derived from numerous sources including student tuition and fees, contracts, grants, private gifts, and sales and services through the hospital and auxiliary enterprises. Additionally, colleges and universities received transfers of \$1.2 billion. The General Fund was the source of \$1.1 billion of these transfers.

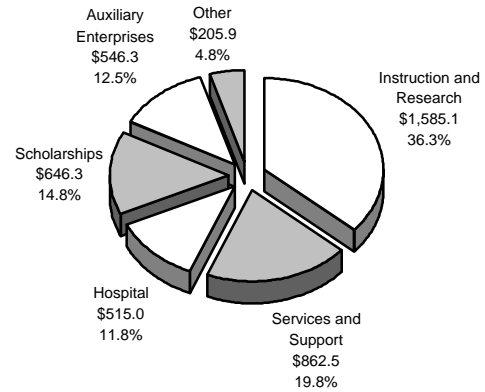
In terms of total resources for higher education in Virginia (**Figure 11**), the General Fund was the major contributor at \$1.1 billion in FY 1999, followed by student tuition and fees of \$891 million, federal grants and contracts of \$798 million, sales and services from hospitals and auxiliary enterprises (\$512 million and \$582 million, respectively), and private grants, gifts and other sources of \$520 million.

Figure 11
**Higher Education Fund
Revenue Sources
FY 1999, GAAP Basis**



Total current expenditures and other uses (**Figure 12**) totaled \$4.4 billion, a 5.8% increase from FY 1998. Spending for instruction and research of \$1.6 billion accounted for 36.3% of higher education expenditures in FY 1999, followed by student services and support of \$862 million, scholarships and fellowships of \$646 million, auxiliary enterprises expenses of \$546 million, teaching hospital expenses of \$515 million, and other expenses and transfers of \$206 million.

Figure 12
**Higher Education Fund
Expenditures and Uses
FY 1999, GAAP Basis
(Dollars in Millions)**



Virginia colleges and universities have a total equity of \$6.7 billion, including \$4.3 billion in land, buildings and equipment. Colleges and universities account for 52.3% of the total property owned by the Commonwealth. The value of college and university endowments totaled \$1.5 billion at the end of FY 1999.

Pension Trust Fund - GAAP Basis

The Commonwealth maintains a number of funds that are managed for the benefit of various groups and institutions. The largest of these is the pension trust fund for state employees. This fund ended FY 1999 with a total equity of \$35.7 billion, and accounts for 78.8% of the Commonwealth's total equity held in all funds. During FY 1999 the fund received \$1.2 billion in contributions and earned \$4.0 billion on investment holdings. The increase in net assets after the payment of retirement benefits, refunds and operating costs was \$3.9 billion (**Figure 13**).

On November 5, 1996, Virginia voters approved an amendment to the Constitution of Virginia which provided that funds of the Virginia Retirement System are trust funds held separate from other state funds. This amendment safeguards the trust funds from being used for any purpose other than paying benefits to members and beneficiaries. The amendment does not change the way the System is funded or organized.

Statement of Changes in Plan Net Assets
Pension Trust Fund - GAAP Basis
For the Fiscal Year Ended June 30, 1999

<i>(Dollars in Thousands)</i>	<i>Figure 13</i>
Additions:	
Contributions	\$ 1,188,580
Investment Income:	
Interest, Dividends and Other	
Investment Income	4,081,496
Securities Lending Income	97,269
Total Investment Income	4,178,765
Less Investment Expenses	171,023
Net Investment Income	4,007,742
Other Revenue	704
Total Additions	5,197,026
Deductions:	
Retirement Benefits	1,079,432
Refunds to Former Members	85,223
Retiree Health Insurance Credits	30,254
Insurance Premiums and Claims	74,238
Administrative Expenses	18,120
Other Expenses	219
Total Deductions	1,287,486
Net Increase	3,909,540
Net Assets, July 1, 1998	31,749,531
Net Assets, June 30, 1999	<u>\$35,659,071</u>

A separately issued financial report that includes financial statements and required supplemental information is publicly available. Copies may be obtained by writing to the Virginia Retirement System, P. O. Box 2500, Richmond, Virginia 23218-2500.

Virtually all pension systems experience some gap between the amount that has been contributed and the amount that will be required to honor all promised benefits to both current and future retirees. This gap arises when benefits are added to the plan, and can also be produced by differences between the assumptions that are made in financing the trust fund and actual experience.

Employer and employee contributions are required by the *Code of Virginia*. The State pays the 5% of employees' annual salaries that employees are required to contribute to the retirement system.

Employer contributions made for FY 1999 totaled \$176.4 million. This was less than the actuarially determined Annual Required Contribution of \$248.5 million, but did meet statutory requirements. The State has elected to allow employer contributions to include an annual

amount that would phase in the funding requirements over a five-year period ending with FY 2002. When compared to other plans similar to Virginia's, the funding statistics indicate that Virginia's plans are adequately funded and financially sound. The pension obligation is included in the calculations of future state contribution rates so that a portion of this obligation is paid off each year.

State Lottery Fund - GAAP Basis

The lottery fund (**Figure 14**) accounts for all receipts and disbursements from the sale of lottery tickets for the several different kinds of games.

Revenues, Expenses and Changes in Retained Earnings
State Lottery - GAAP Basis
For the Fiscal Year Ended June 30, 1999

<i>(Dollars in Thousands)</i>	<i>Figure 14</i>
Operating Revenues:	
Charges for Sales and Services	\$ 934,521
Total Operating Revenue	934,521
Operating Expenses:	
Personal Services	16,997
Contractual Services	91,325
Supplies and Materials	7,953
Depreciation	4,957
Lottery Prize Expense	497,461
Total Operating Expenses	618,693
Operating Income	315,828
Nonoperating Revenues:	
Interest, Dividends and Rents	8,989
Other	1,224
Total Nonoperating Revenues	10,213
Income Before Transfers and Changes	326,041
Operating Transfers Out	(9,439)
Transfers to the General Fund	(321,875)
Net Income/(Loss)	(5,273)
Retained Earnings July 1, 1998	4,514
Retained Earnings June 30, 1999	<u>\$ (759)</u>

During FY 1999, the Lottery had revenues of \$935 million and expenses, including lottery prize payments, of \$619 million. Income for the year, including interest earnings, was \$326 million. During FY 1999, \$322 million was transferred to the General Fund as required by law, and another \$9 million was transferred to the

Literary Fund.

Alcoholic Beverage Control Fund - GAAP Basis

The "ABC" fund accounts for the receipts from the sale of alcoholic beverages. In FY 1999, ABC profits of \$25 million were distributed to the General Fund to use for current operations. Another \$12 million in ABC funds was transferred to the General Fund for alcohol treatment and rehabilitation programs. Total ABC operating income for FY 1999 was \$37 million on \$290 million in total sales.

Risk Management (Self-Insurance) Program - GAAP Basis

The Commonwealth is "self-insured" for workers' compensation, property damage, general (tort) liability, medical malpractice and automobile insurance coverage. At the end of FY 1999, the self-insurance program had cash and other assets of \$88 million, while the estimated liability for claims payable was \$172 million. The program had additional liabilities of \$21 million, which resulted in a GAAP deficit balance of \$105 million.

The self-insurance program remains solvent because additional cash is constantly being provided from premiums paid by state agencies.

Debt Administration

The total outstanding debt on the books of the Commonwealth as of the end of FY 1999 was \$13.5 billion (**Figure 15**). Long term bonds and notes represent 92.5% of all debt, with the remaining 7.5% consisting of compensated absences, pension liabilities, capital leases, installment purchase contracts and various other payables.

Debt on the books of the Commonwealth can be classified into three categories: general obligation bonds of Virginia taxpayers, limited obligations, which may use tax revenue to pay principal and interest (Other Tax Supported), and debt issued by state-created authorities and institutions of higher education, which is not an obligation of Virginia taxpayers and does not use tax revenues (Non-Tax Supported).

As illustrated in **Figure 15**, a total of \$1.1 billion, or 8.2% of all debt, is a general obligation of Virginia taxpayers and supported by a pledge of all tax revenues and other monies of the Commonwealth. This kind of pledge is also referred to as "full faith and credit" debt. General obligation debt is issued as provided for in the State Constitution.

State Debt		
Tax Supported and Non-Tax Supported		
As of June 30, 1999		
Dollars in Thousands	Figure 15	
TAX SUPPORTED DEBT		
General Obligation Bonds:		
Public Facilities Bonds	\$ 470,930	3.5%
Parking Facilities Bonds	11,660	0.1%
Transportation Facilities Bonds	205,376	1.5%
Bond Anticipation Notes	33,000	0.2%
Higher Education Bonds	387,963	2.9%
Total General Obligation Bonds	1,108,929	8.2%
Other Tax Supported Debt:		
Transportation	736,960	5.5%
Port Authority	106,805	0.8%
Public Building Authority	965,886	7.2%
Innovative Technology Authority	12,195	0.1%
College Building Authority	248,190	1.8%
Long Term Capital Lease Payable	246,215	1.8%
Compensated Absences	423,753	3.1%
Pension Liability	210,896	1.6%
Biotechnology Research Park	30,115	0.2%
Regional Jail Construction	62,635	0.5%
Other Long Term Obligations	69,378	0.5%
Total Other Tax Supported		23.1%
Total Tax Supported Debt	4,221,957	31.3%
NON-TAX SUPPORTED DEBT		
Higher Education	390,738	2.9%
Housing Development Authority	5,868,334	43.5%
Pocahontas Parkway Association	381,706	2.8%
Public School Authority	1,784,280	13.2%
Virginia Resources Authority	326,641	2.4%
Other Long Term Obligations	523,228	3.9%
Total Non-Tax Supported Debt	9,274,927	68.7%
Total Commonwealth Debt	\$13,496,884	100.0%
	4	%

The next category of debt, limited obligations which may use tax revenue, does not carry the "full faith and credit" of the Commonwealth, but does use certain tax revenues, in whole or in part, to pay principal and interest. Examples of other tax supported debt include certain bonds issued by the Virginia Port Authority to improve Virginia ports, most highway construction bonds, bonds issued to construct state office buildings, hospitals and prisons, and capital leases and installment purchase contracts entered into by state agencies and institutions of

higher education. A total of \$3.1 billion of this type of tax supported debt was outstanding at the end of FY 1999. This is 23.1% of all debt on the books of the Commonwealth.

Non-Tax Supported Debt makes up 68.7% of all debt in the Commonwealth. The majority of this debt is issued by various authorities that are created under state law to issue bonds to finance various programs considered to provide a benefit to the public. Total debt in this category at the end of FY 1999 was \$9.3 billion.

The largest of these authorities is the Virginia Housing Development Authority, which has \$5.9 billion in debt outstanding secured by various mortgages. Other issuers include the Virginia Public School Authority, Pocahontas Parkway Association, and the Virginia Resources Authority. Colleges and teaching hospitals also issue

bonds secured only by fees paid for services. These bonds do not use state taxes to pay principal and interest.

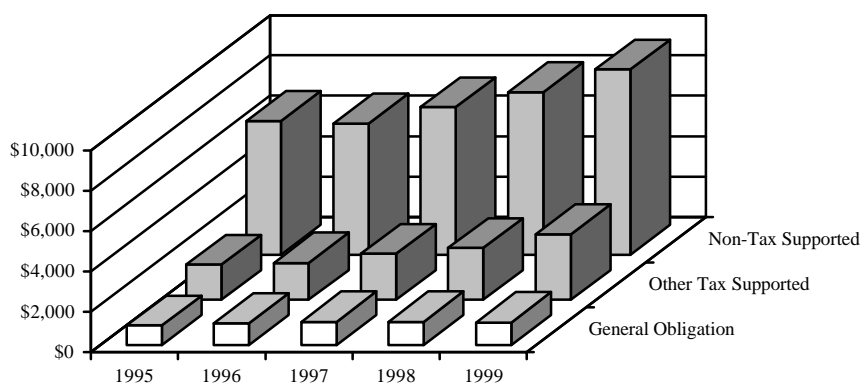
In each case, the debt of these authorities is secured only by the revenues of the issuing body. No tax revenues are used to support this debt and it is not considered a legal obligation of the Commonwealth. However, \$2.3 billion of the total carries a "moral obligation" promise by the state to consider funding any deficiencies in debt service reserves from tax revenues. To date, such deficiencies have not occurred.

Figure 16 summarizes the outstanding debt owed by the Commonwealth in all categories over five fiscal years.



Figure 16
Categories of Debt

(Hundreds of Millions of Dollars)



The following sections discuss **Other Financial Information** which may be of interest to the reader. Much of the information was reported in the State Comptroller's "Report on Statewide Financial Management and Compliance for the quarter ended June 30, 1999." This information is not included in the audited financial statements.

Cash Balances

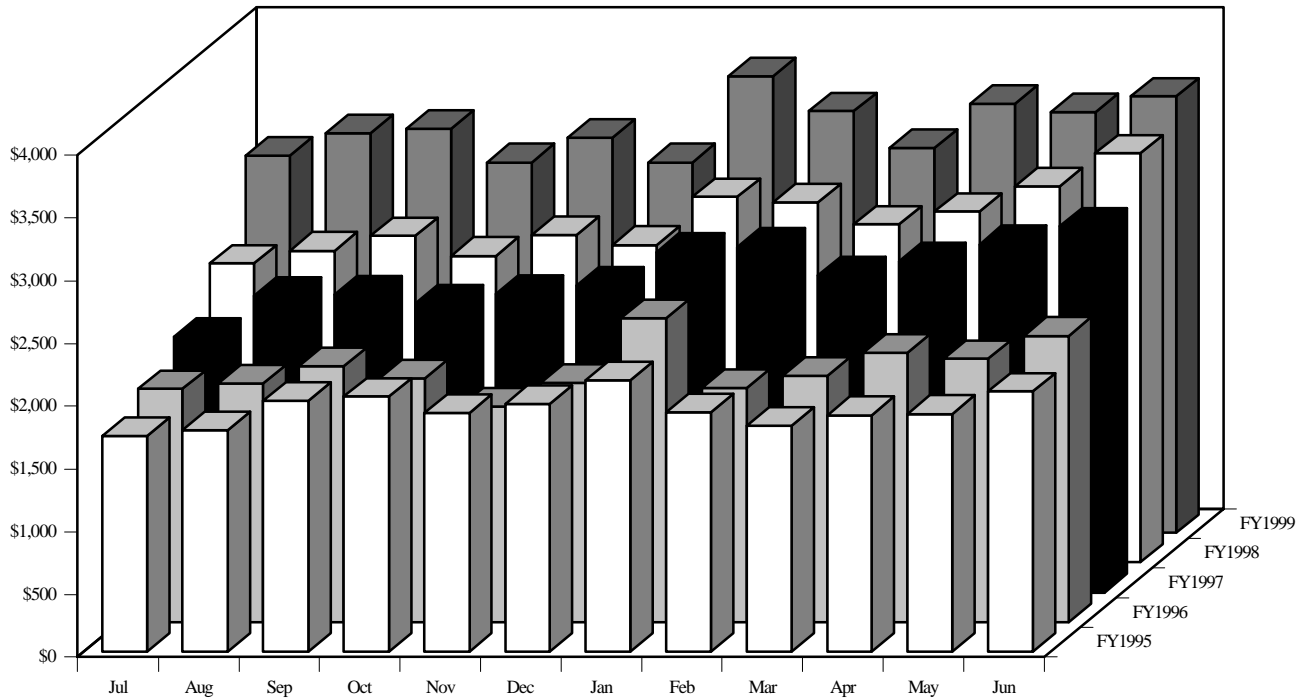
Although the Commonwealth uses a number of funds for financial reporting purposes, cash is concentrated in a few accounts under the control of the State Treasurer. These accounts support all payments of state funds, while available cash balances are kept actively invested in secure, short-term securities. Of these accounts, the *general account* of the State Treasury is the most

important because it includes cash from the great majority of the various state funds. These cash balances are monitored daily to ensure that funds are available to meet the obligations of the Commonwealth, and to maximize investment earnings on the available cash balances.

Figure 17 shows the monthly cash balances of the general account for the last five fiscal years. As shown in the figure, cash balances have grown significantly over the five-year period.

The general account had an average daily investment balance of \$3.4 billion during FY 1999. Earnings by the Treasury were \$191.4 million. The Treasury measures its investment results monthly against comparable investment indices and is able to consistently outperform them.

Figure 17
General Account Cash Balances
By Month, FY 1995 - FY 1999



Accounts Receivable

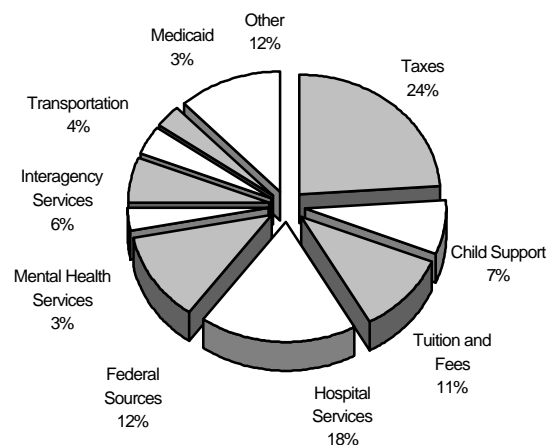
At the end of FY 1999 state government was owed \$1.4 billion. These amounts owed to the state are classified as *accounts receivable*, and are subject to a variety of collection programs. As is true with private businesses, a certain proportion of state accounts receivable are not expected to be collected, and these are classified as "doubtful" or "uncollectible" accounts. The balance is considered collectible. Of the \$1.4 billion owed, \$671 million was considered collectible. These amounts are owed to the state from a variety of different sources (**Figure 18**).

Eight state agencies had the majority of all accounts receivable at the end of FY 1999 (**Figure 19**).

The largest sources of uncollectible receivables in state government include: unpaid tax assessments, fines and penalties levied by the State's courts, patient billings for services provided by mental hospitals and indigent care programs at the teaching hospital, unrecovered overpayments to Medicaid providers, unpaid bills owed by businesses for unemployment insurance and workers' compensation insurance, and unpaid child support

payments.

Figure 18
Collectible Receivables by Type
As of June 30, 1999



Largest Accounts Receivable Agencies

As of June 30, 1999

Dollars In Thousands

Figure 19

<u>Agency/Institution</u>	<u>Gross</u>	<u>Allowance For Uncollectible Accounts</u>	<u>Collectible</u>
Department of Taxation	\$ 652,425	\$ 540,143	\$ 112,282
Department of Social Services	136,039	40,741	95,298
UVA - Medical Center	114,735	9,243	105,492
Courts of Justice System	107,323	100,633	6,690
Virginia Employment Commission	48,719	10,238	38,481
Department of Education	47,219	-	47,219
Department of Medical Assistance Services	38,136	16,385	21,751
State Lottery Department	36,112	-	36,112
Total	1,180,708	717,383	463,325
All Other Agencies	236,319	28,571	207,748
Grand Total	\$ 1,417,027	\$ 745,954	\$ 671,073

Accounts Payable

State government places a significant emphasis on ensuring that vendors doing business with state agencies are paid within the time specified in the purchase contract. Payment performance is monitored monthly, and overdue payments entitle vendors to collect interest. Agencies must achieve a 95% compliance rate with all payment provisions in order to be considered in compliance with the Virginia Prompt Payment Act.

Figure 20 shows that for FY 1999, the state made 96.0% of its payments on time, and that 93.3% of the dollars owed were paid out in compliance with prompt payment requirements. The state paid out \$52,476 in interest on late payments during FY 1999 on total vendor payments of \$3.6 billion.

Figure 20
Statewide Prompt Payment Statistics
For FY 1999

Number of Late Payments	108,605
Total Number of Payments	2,552,952
Late Dollars (Thousands)	\$261,935
Total Dollars (Thousands)	\$3,618,850
Interest Paid	\$52,476
Percent of Payments in Compliance	96.0%
Percent of Dollars in Compliance	93.3%

Transaction Volumes

Virginia's government finances require that state accounting and financial reporting systems process large numbers of transactions into accounting records. During FY 1999, 10.7 million transactions were recorded in the accounts.

Error rates for updates to the accounting records have remained at low levels since FY 1992. This is a strong indication that agency accounting staffs are well trained and capable of carrying out their responsibilities.

Payment Systems

Approximately 66,400 payments totaling \$11.1 billion were made in FY 1999 using electronic payment systems. This helped to avoid the issuance of approximately 166,000 checks. Electronic payments were made to 188 grantees, 311 vendors and 391 localities. Also in FY 1999, approximately \$92.8 million in small purchases (those \$5,000 or less) were made using the small purchase charge card program. This helped to avoid another 355,900 checks.

About 63% of state payments are made electronically. These include the paychecks of 84,551 employees who are paid through direct deposit to their bank accounts. However, the state still writes approximately 7.3 million checks per year, including 2.1 million tax refunds, 2.9 million social service payments, 1.2 million general warrants, and 684,000 payroll checks.

Personal Property Tax Relief

During FY 1998, the General Assembly passed the Personal Property Tax Relief Act as proposed by Governor Gilmore. This means that the Commonwealth has assumed financial responsibility for a certain portion of the personal property taxes collected by localities over a five-year period beginning in 1998. There is no impact on local revenues. The Commonwealth will fund localities in an amount equal to the amount of tax relief.

Specifically, the tax owed on the first \$20,000 of the value of any car, truck or motorcycle held for personal use will be eliminated by 2002. In 1998, the Commonwealth reimbursed taxpayers directly after they paid their personal property tax bills. Beginning in 1999, personal property tax bills sent by localities show the tax relief as a reduction in the amount owed on the personal property tax bills.

The timetable shown in **Figure 21** shows the schedule for elimination of the personal property tax on the first \$20,000 of the value of qualifying vehicles.

Personal Property Tax Relief

Figure 21

<u>Year</u>	<u>Percentage of Tax Relief</u>
1998	12.5%
1999	27.5%
2000	47.5%
2001	70.0%
2002	100.0%

Year 2000 Readiness

Many existing computer programs used only two digits to identify a year in the date field before the programs were either modified or replaced. These programs were designed without considering the change in the century. If not corrected, these programs had the potential to fail or create confusion by or at the year 2000.

The State recognized the need to ensure its critical business operations would not be harmed or unduly interrupted by Year 2000 software failures. The State has modified its computer systems to address this challenge, with particular emphasis on its "mission critical" systems, which include various financial systems.

On December 31, 1996, the Governor established the Century Date Change Initiative within the State to resolve computer problems associated with the arrival of the Year 2000. In addition, a Century Date Change Task Force was created. Each agency is primarily responsible for its own information systems; however, the State Data Administrator was given all the necessary powers to direct the State's efforts to ensure that it is Year 2000 compliant. State agencies have estimated that their total planned spending to address the Year 2000 problem is \$206.8 million. Total Year 2000 expenditures at June 30, 1999, were \$149.0 million. As of December 8, 1999, all agencies and institutions of higher education in the Commonwealth of Virginia report that their Year 2000 projects are 100% complete.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) recognized the Commonwealth through its Award for Outstanding Achievement in Popular Annual Financial Reporting for the fiscal year ended June 30, 1998. This is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report whose contents conform to program standards of creativity, presentation, reader appeal, and understandability. The award is valid for a period of one year only. It is expected that the current report continues to conform to the Popular Annual Financial Reporting requirements.

Award for Outstanding Achievement in Popular Annual Financial Reporting

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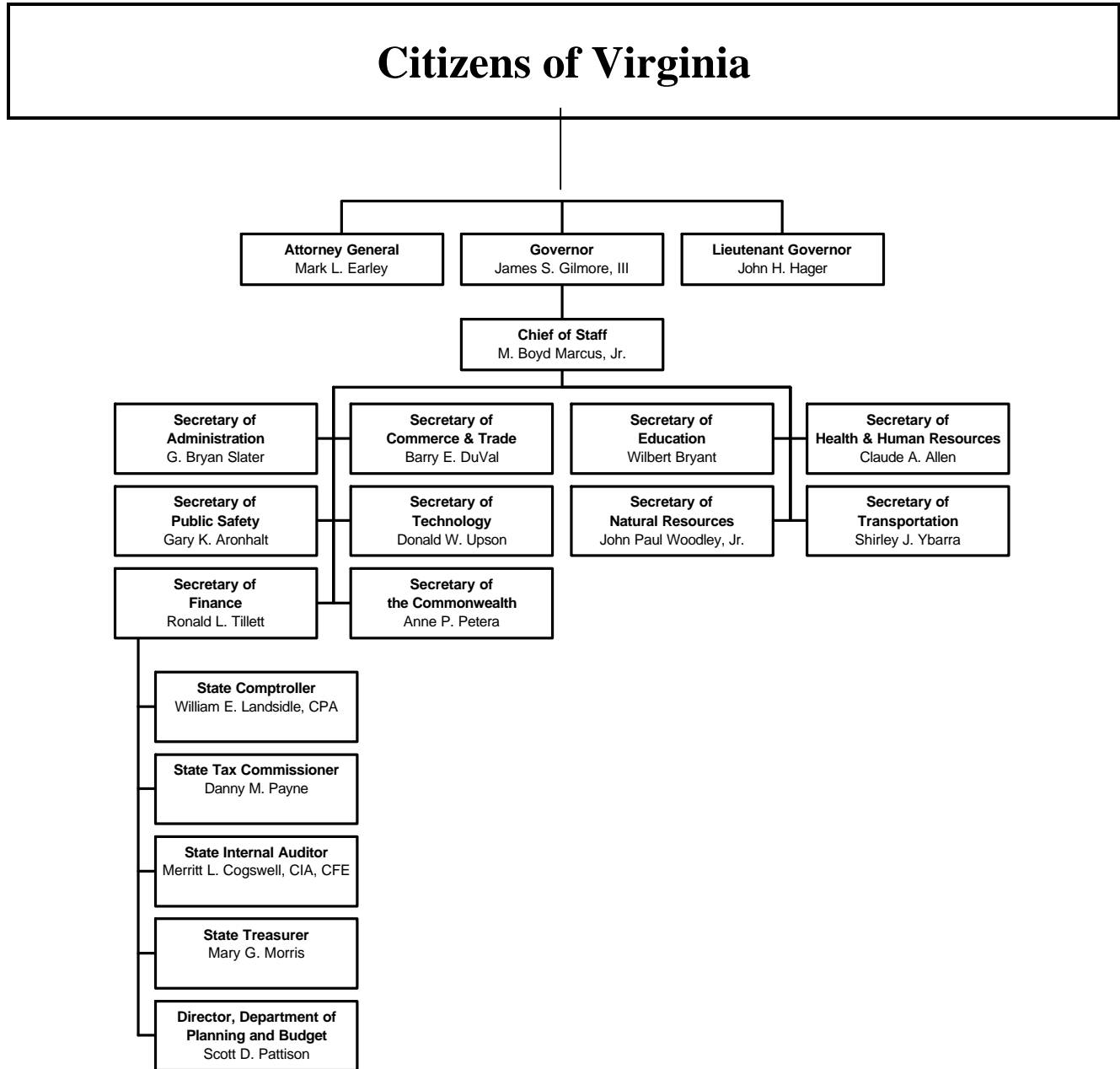
**COMMONWEALTH OF
VIRGINIA**

**For the fiscal year ending
June 30, 1998**



Cary Brueck
President
Jeffrey L. Esler
Executive Director

**Organization of Government
Selected Government Officials - Executive Branch**





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